

Monetary and fiscal interactions in a high debt environment

European Commission Workshop

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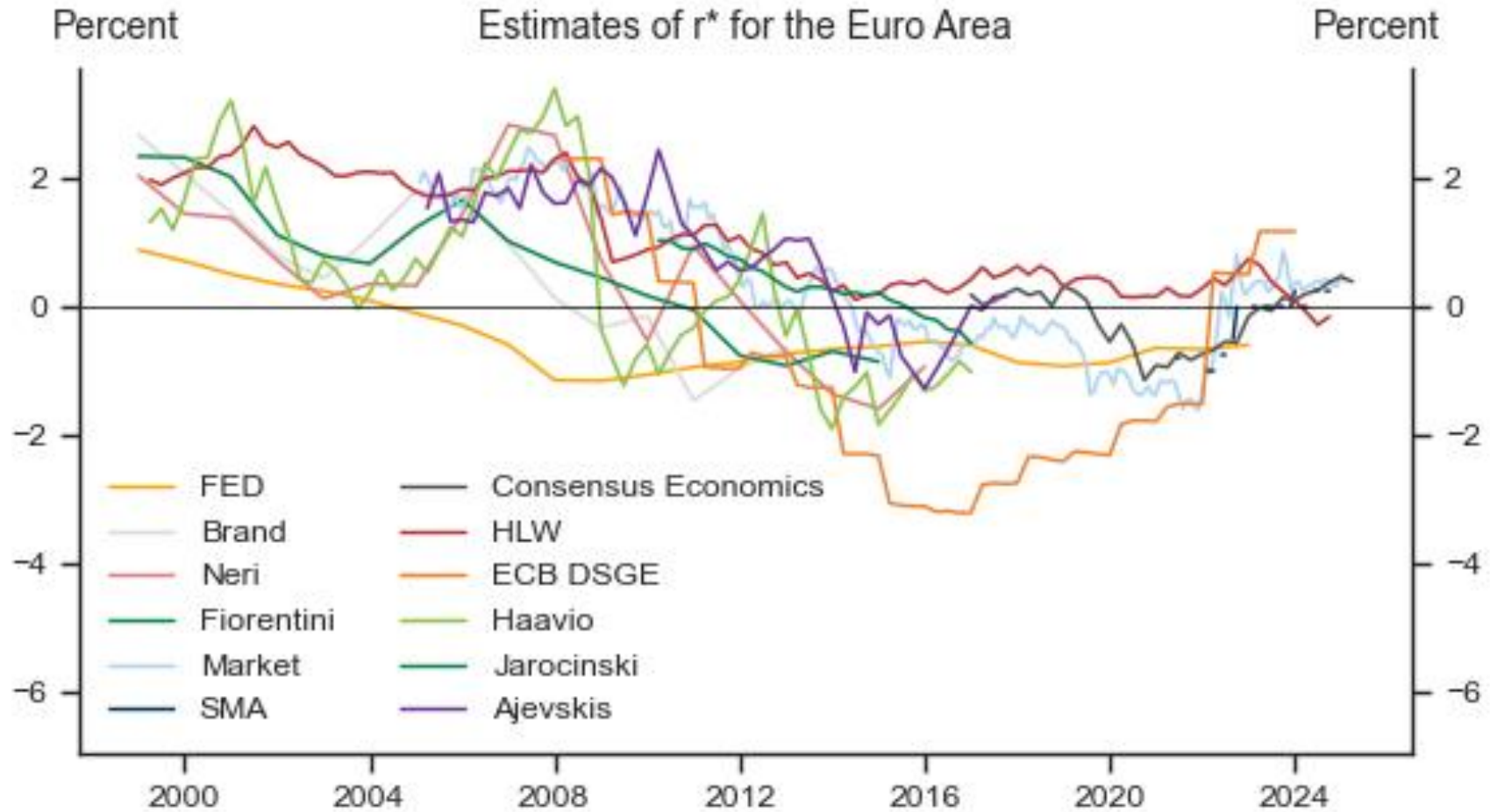
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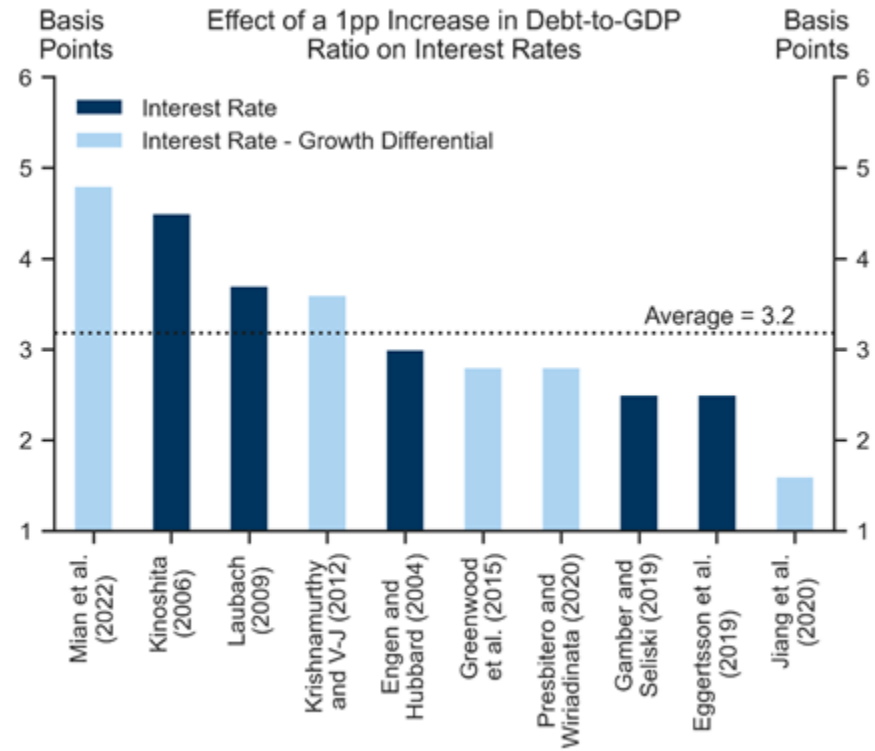
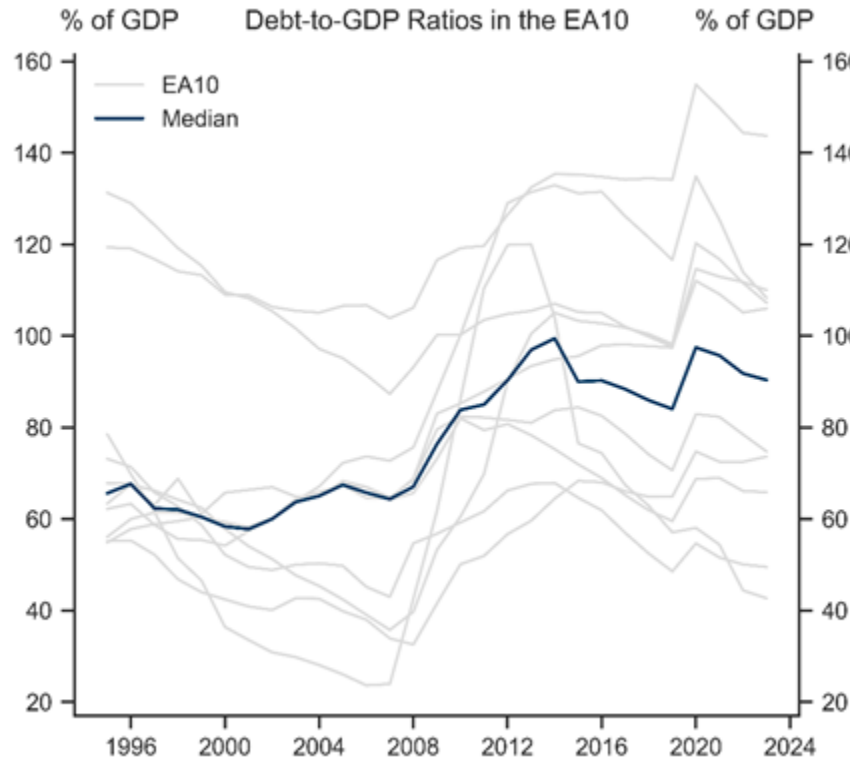


Slides for Block 1

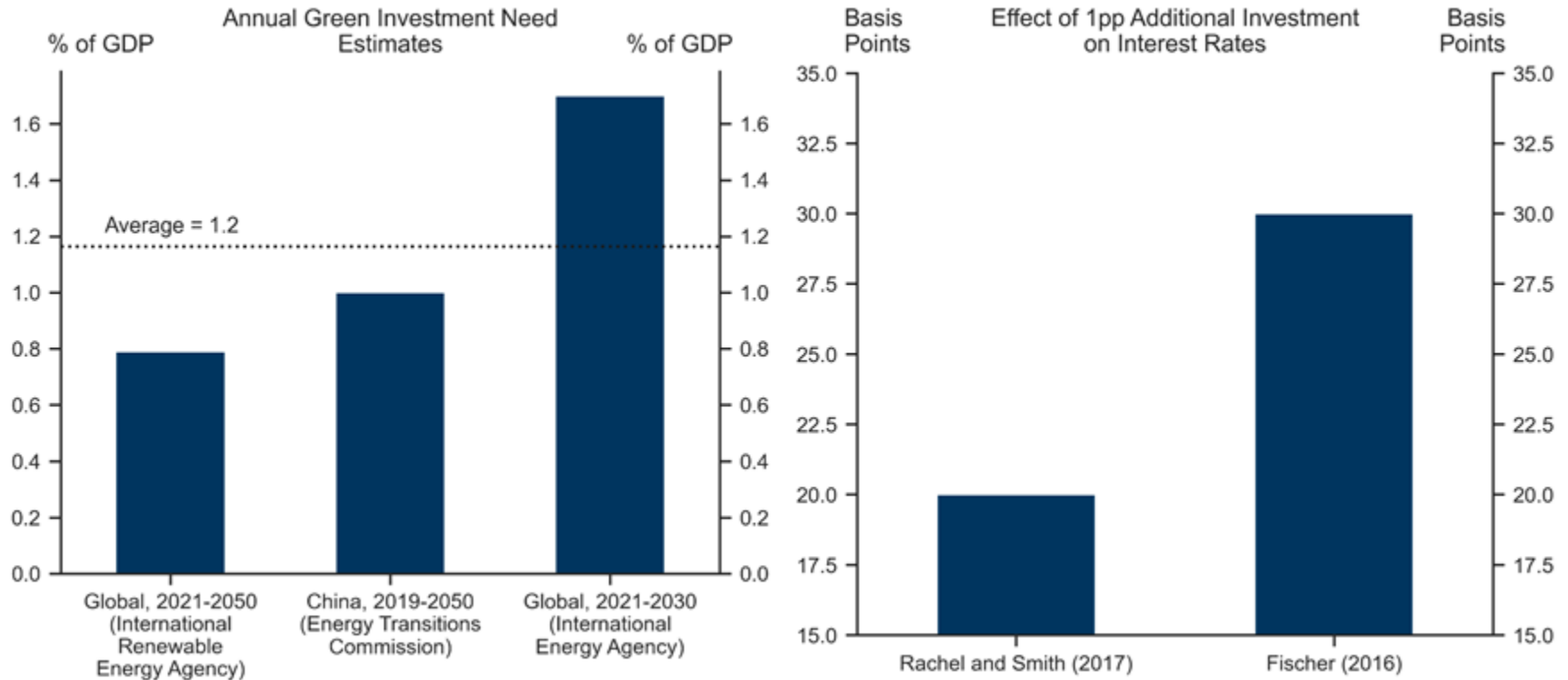
Return to a Low Equilibrium Rate Environment?



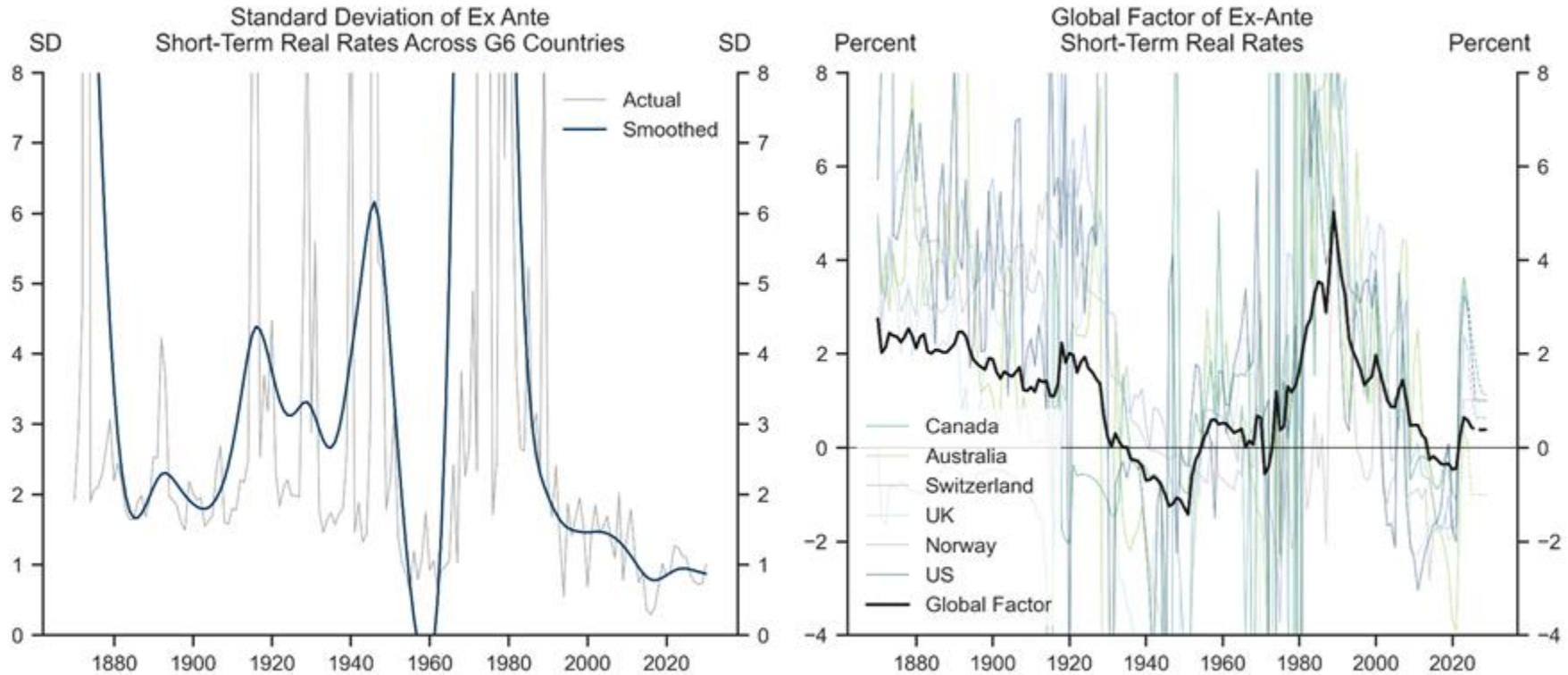
#1 Higher Public Debt



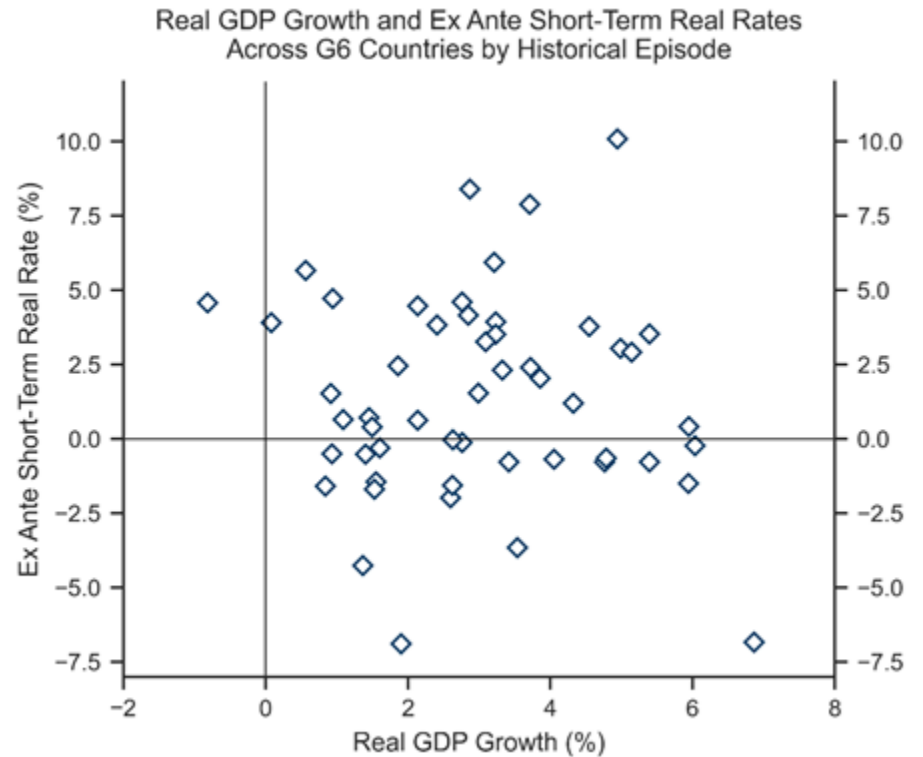
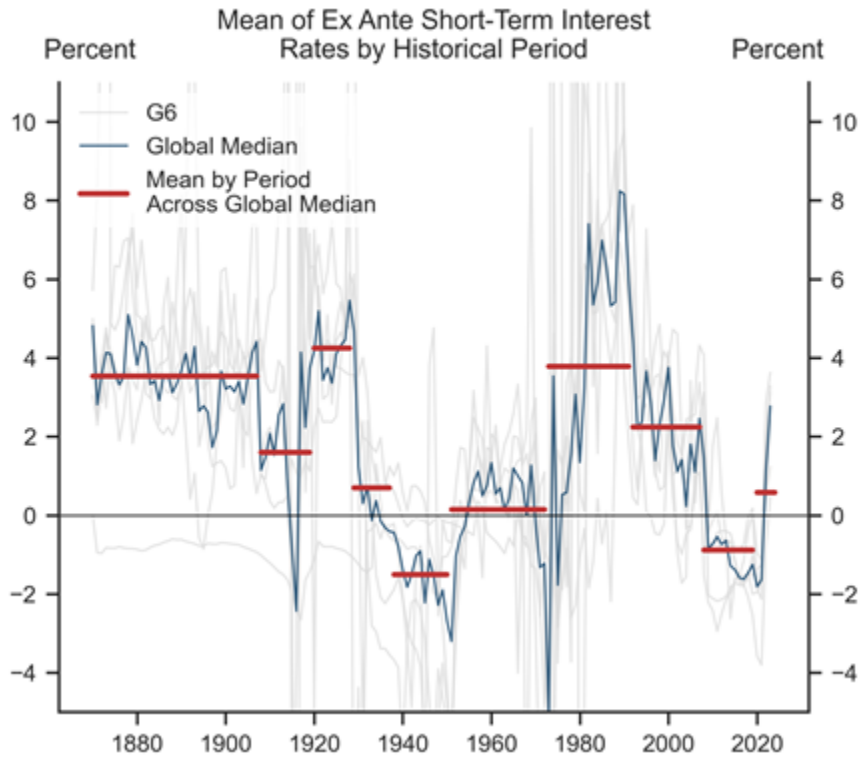
#2 Investment Effects on Interest Rates



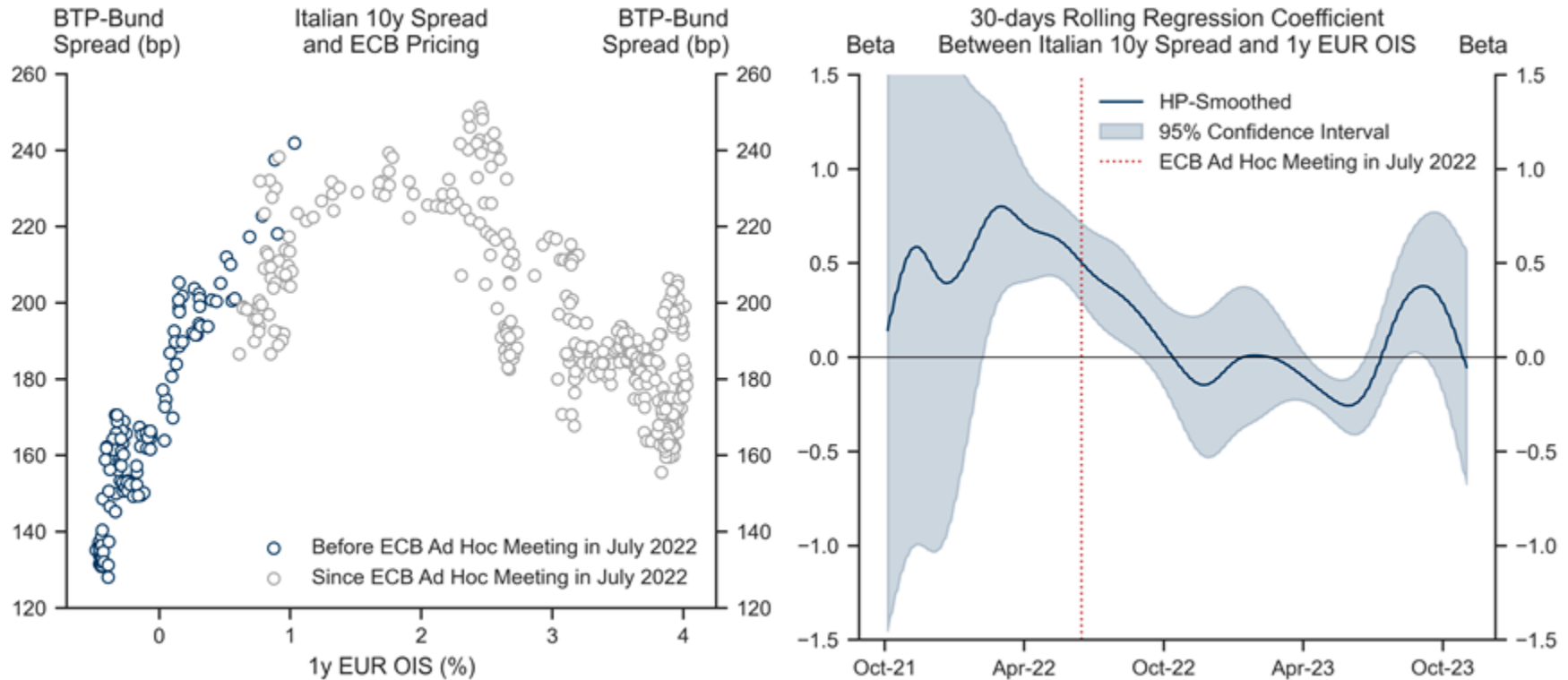
#3 Stronger Global Co-Movement



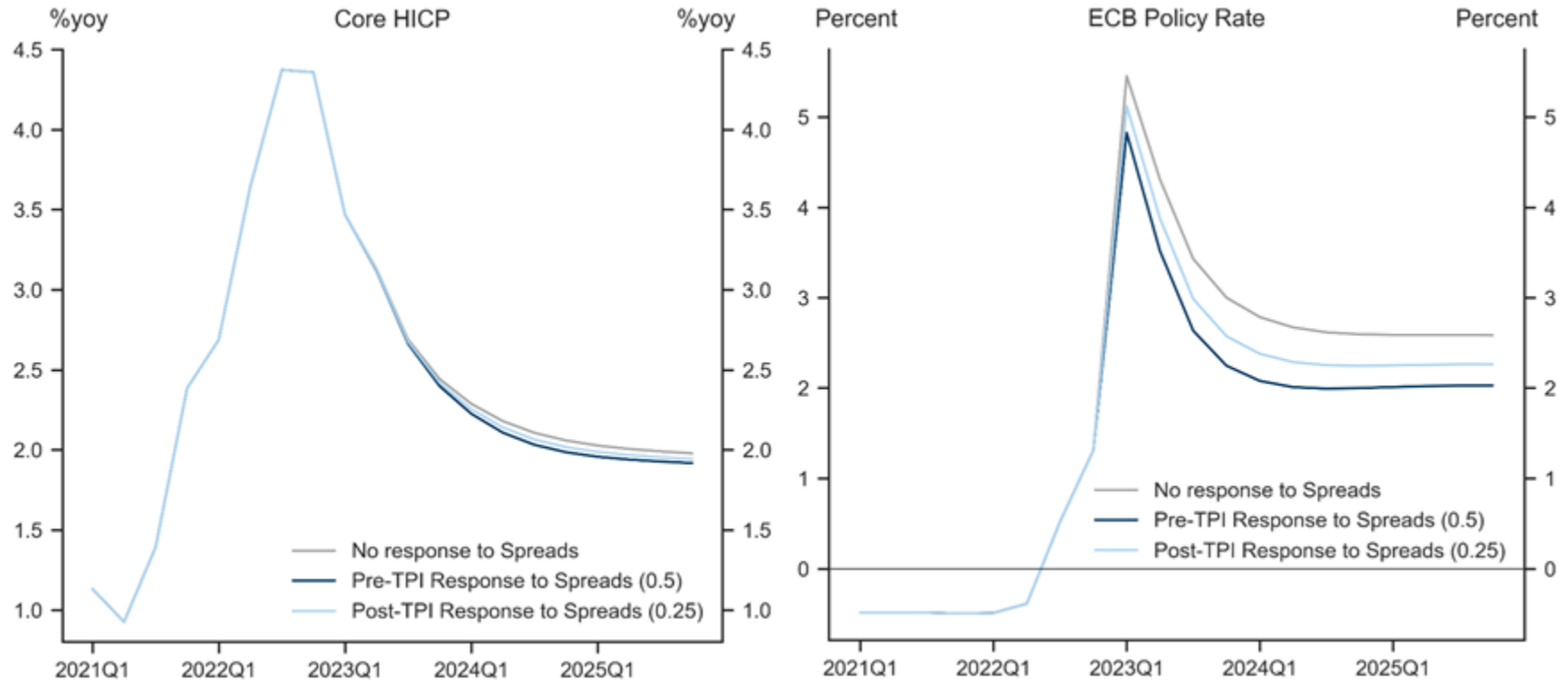
#4 Lessons from History



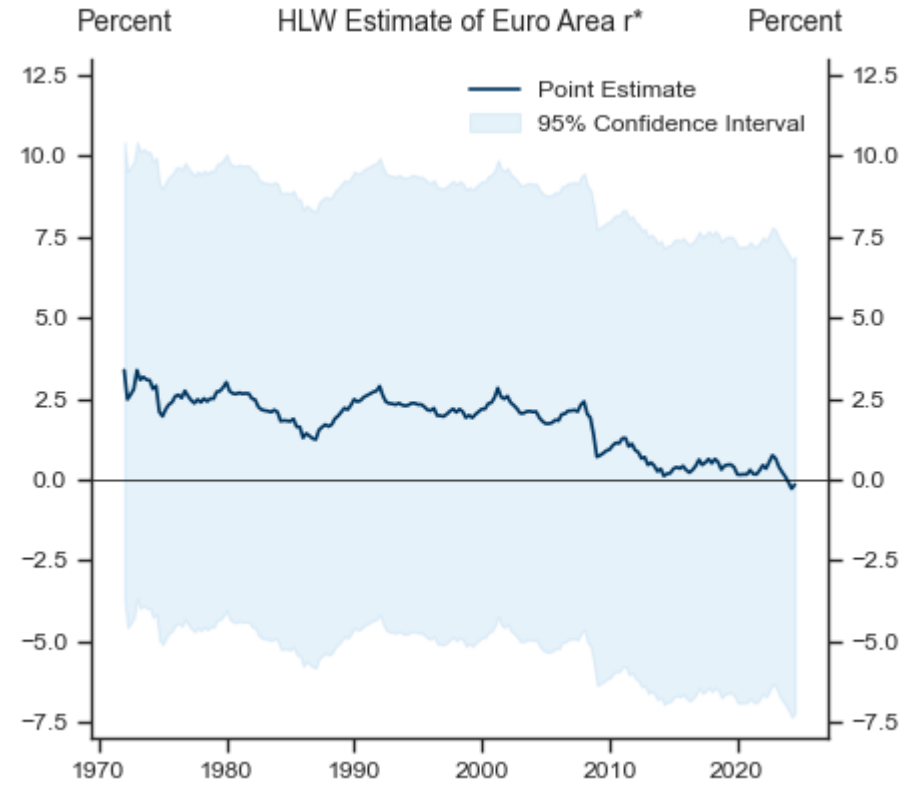
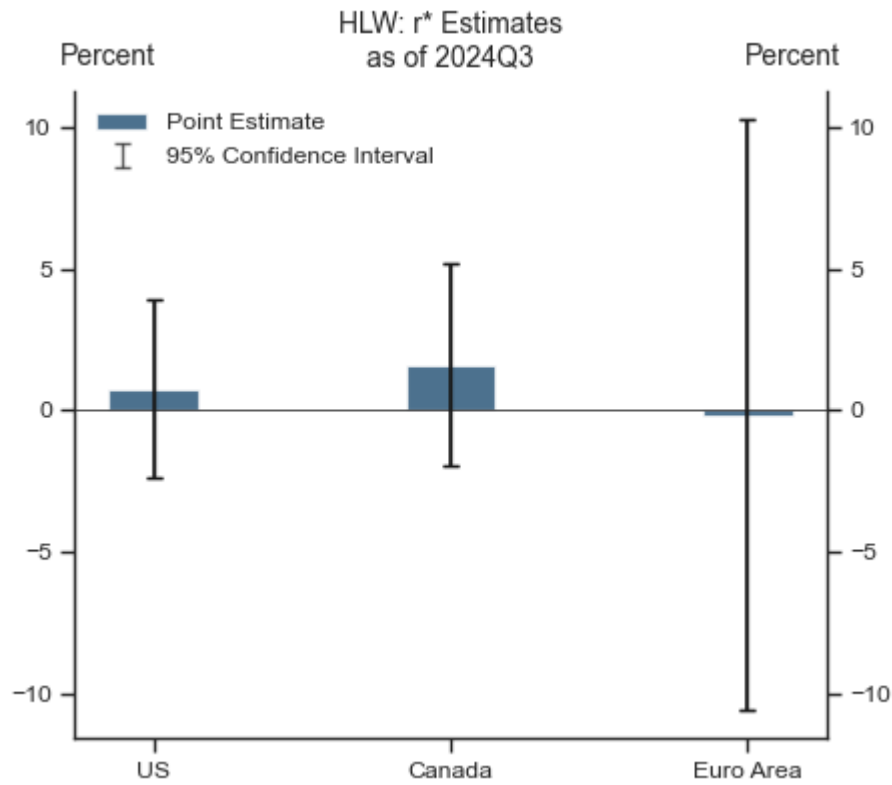
#5 Sovereign Spreads Less Responsive to Rates



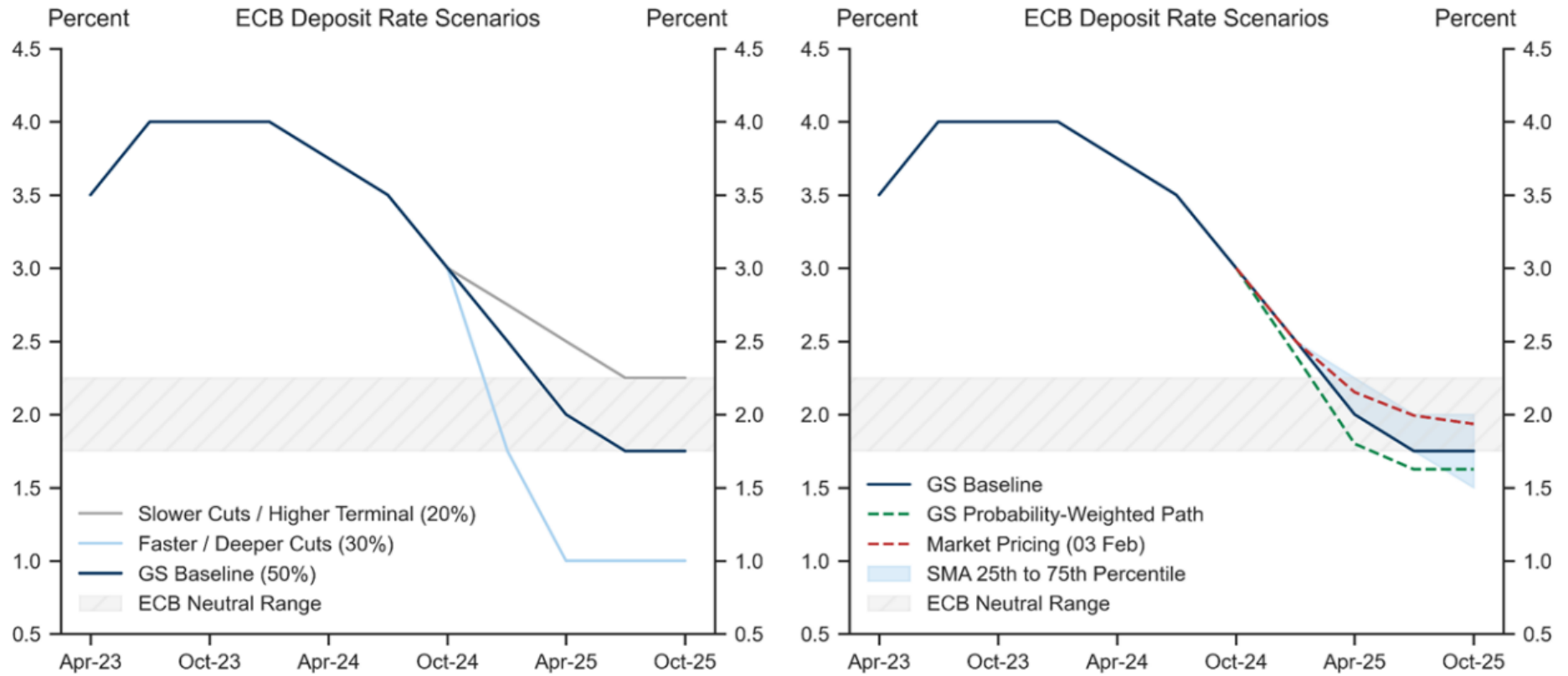
Simulating R(ome)*



But Error Bands Very Large



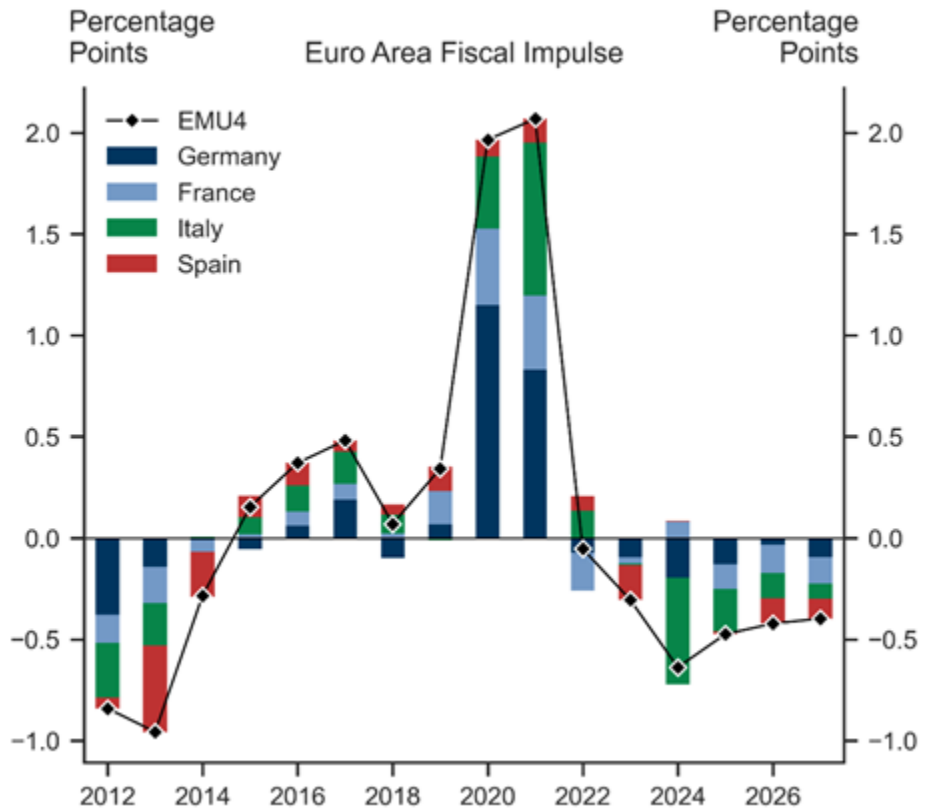
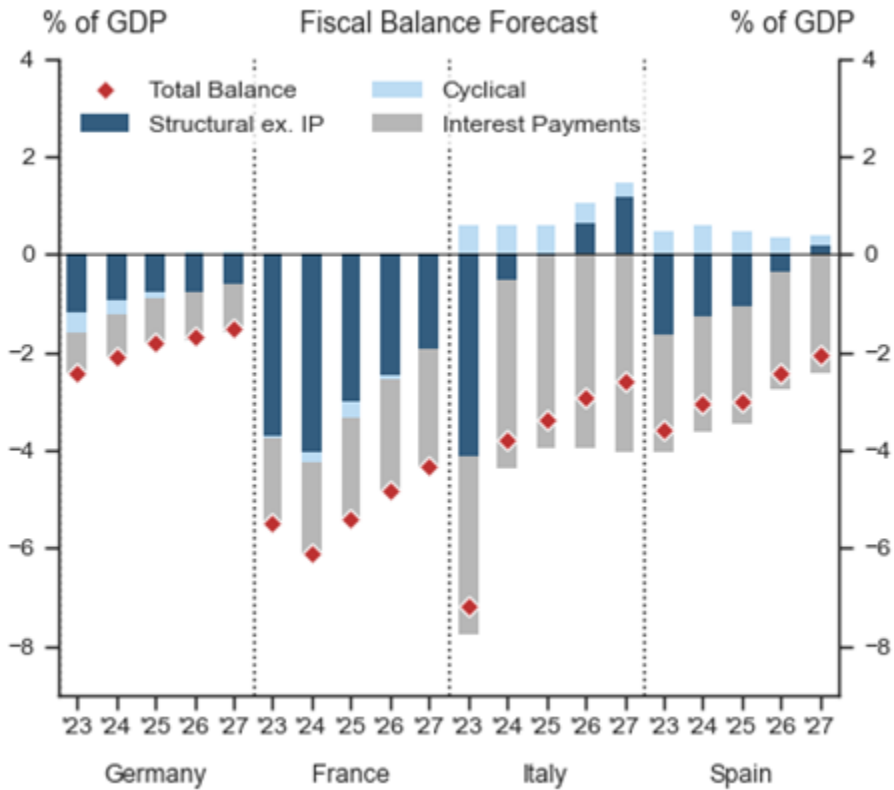
We Look for Sequential ECB Cuts to 1.75%



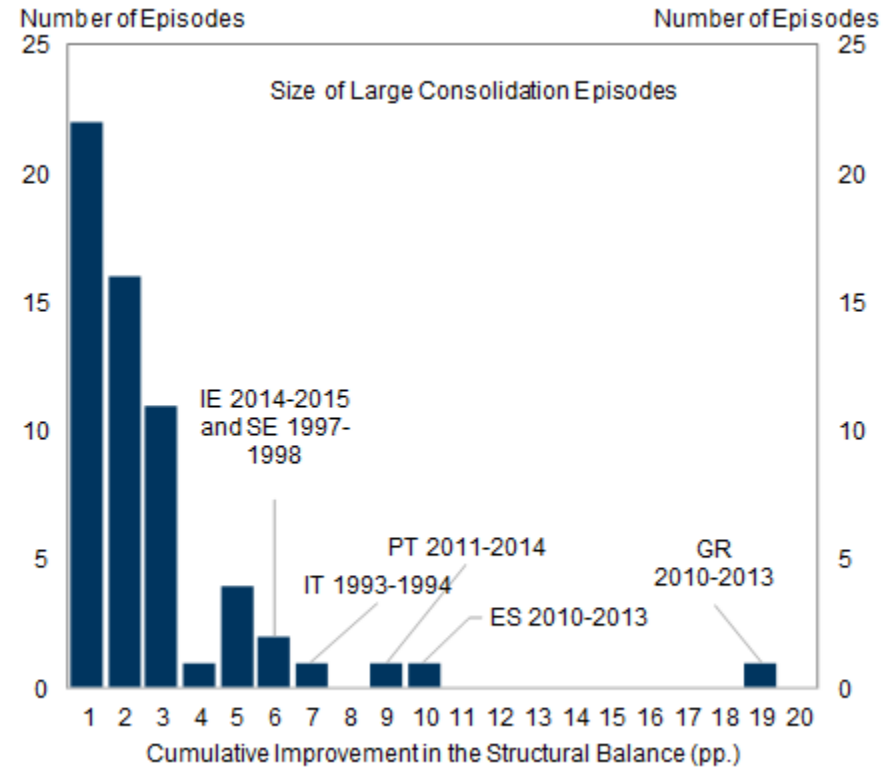
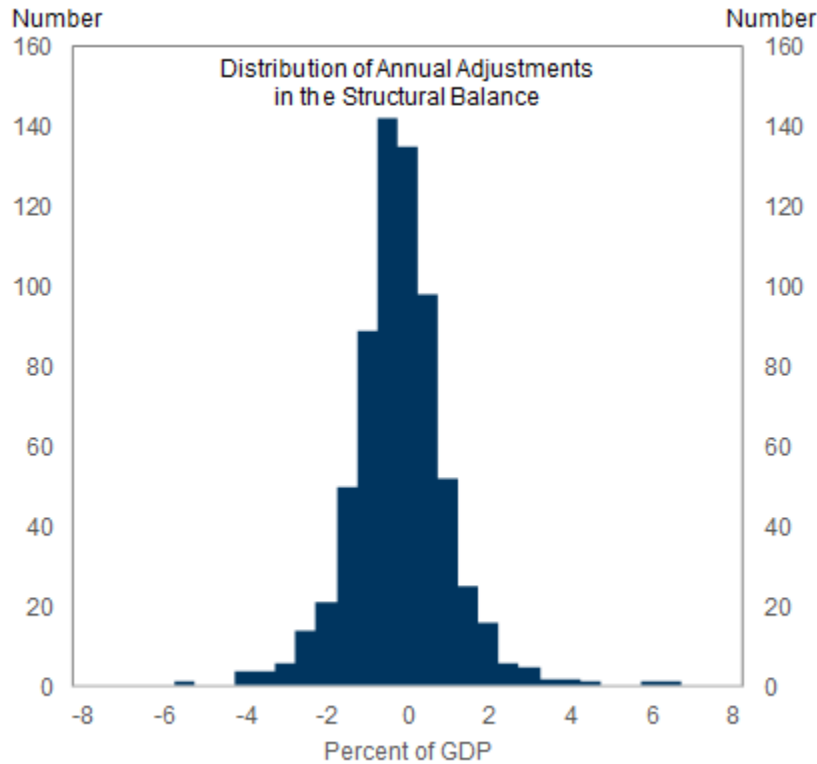
Source: ECB, Haver Analytics, Goldman Sachs Global Investment Research.

Slides for Block 2

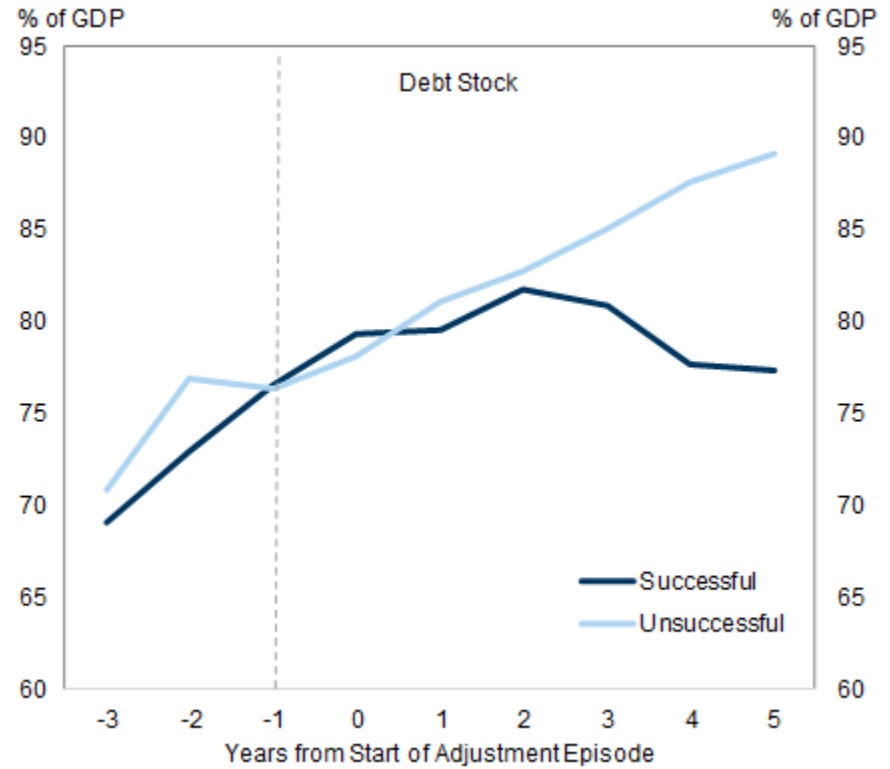
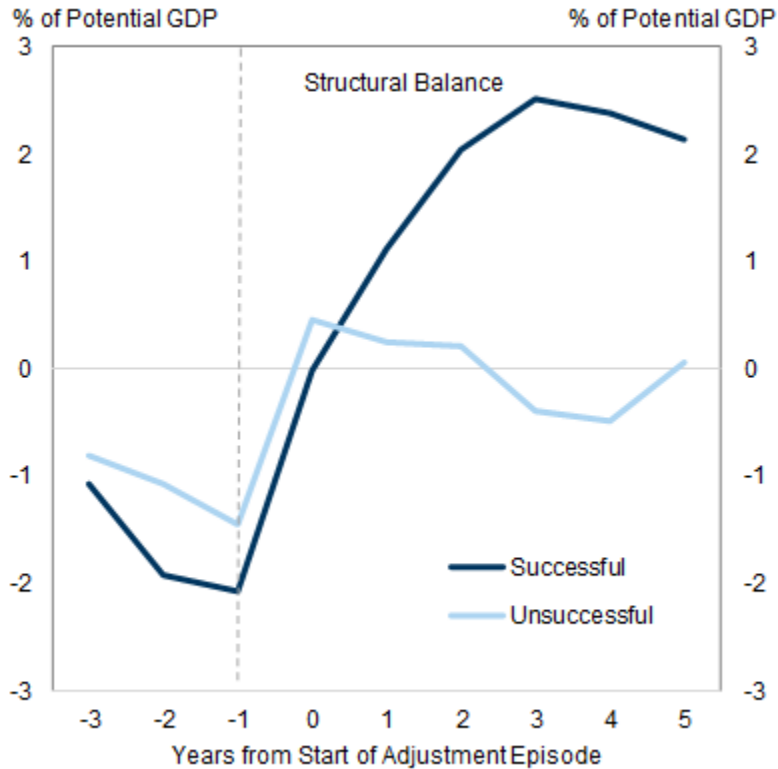
Ongoing Fiscal Consolidation



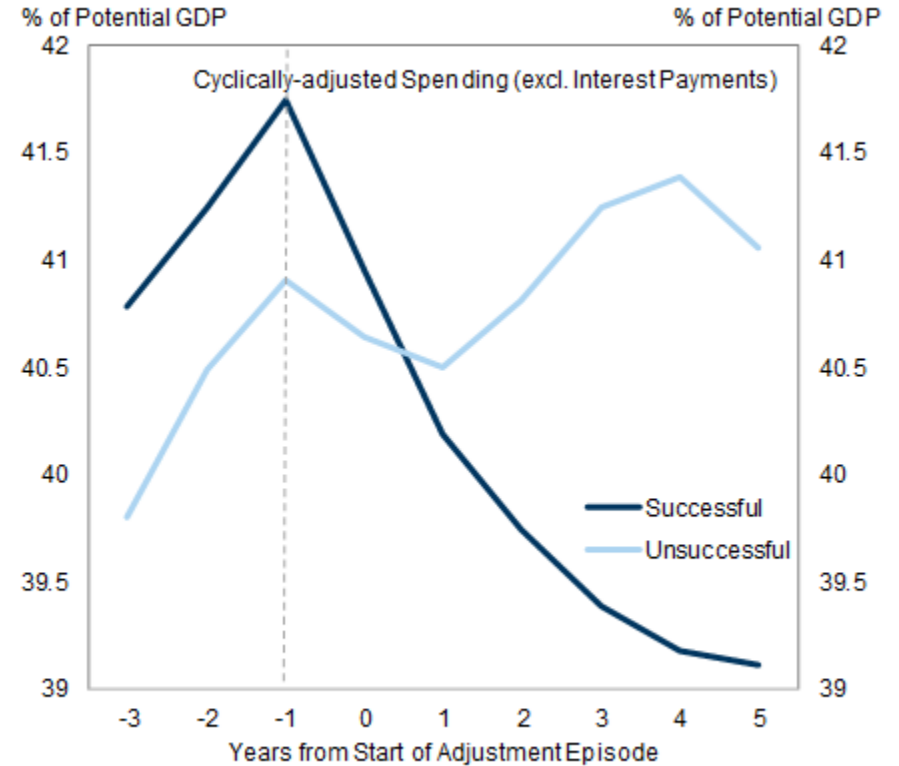
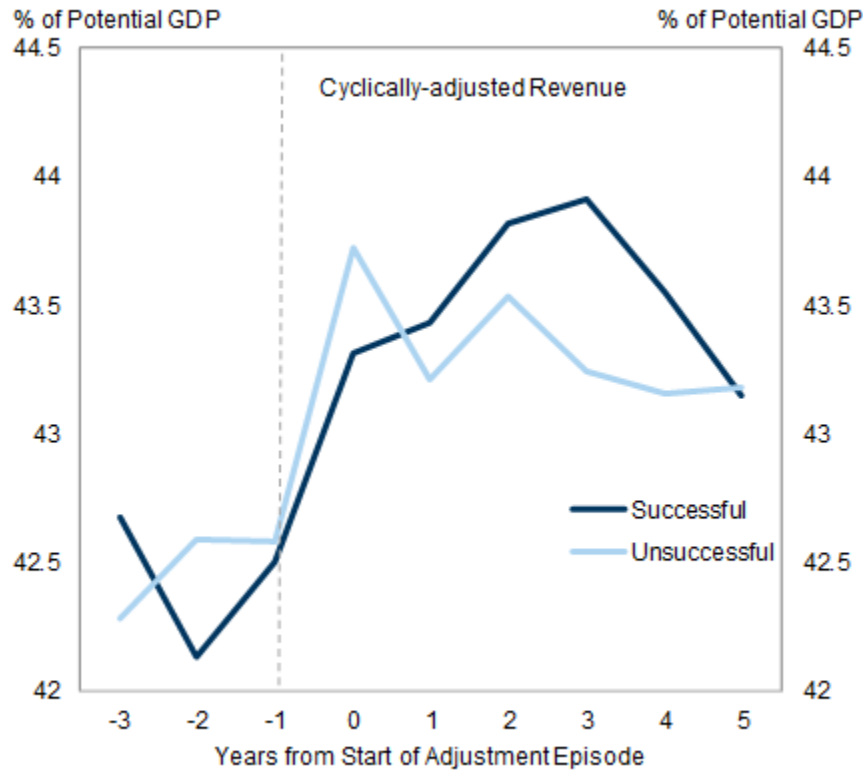
A Database of Fiscal Adjustments (OECD 1985-2019)



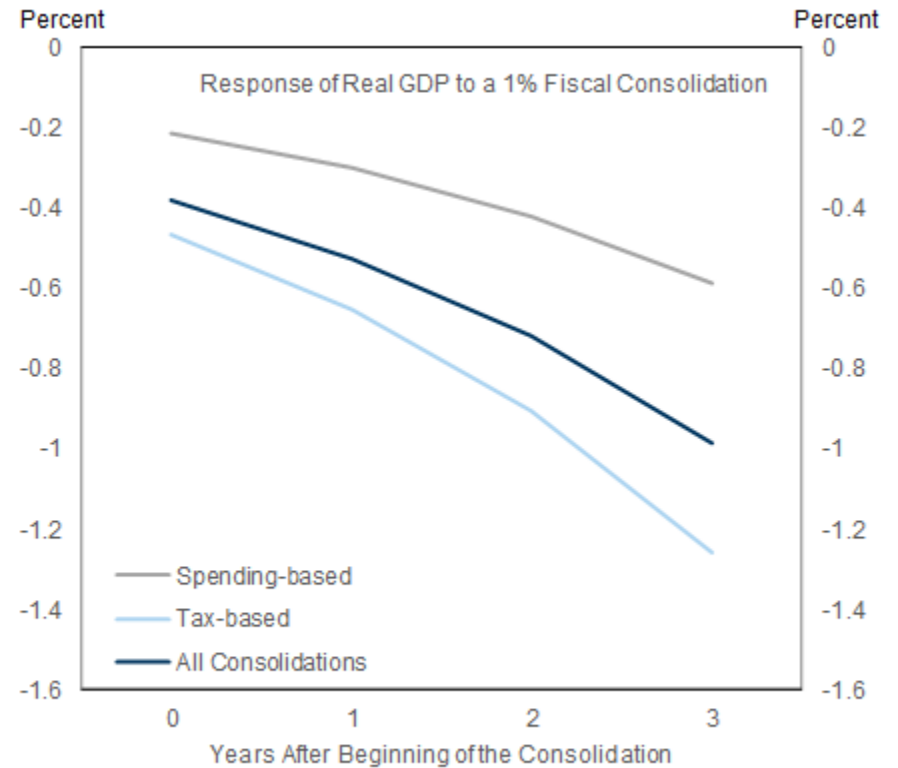
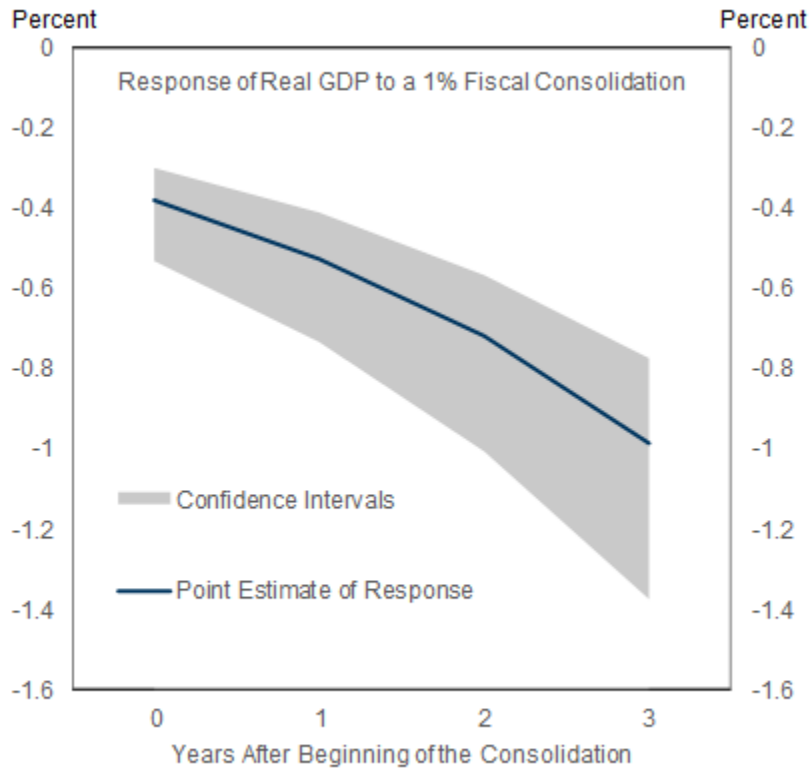
Successful vs Unsuccessful Consolidations



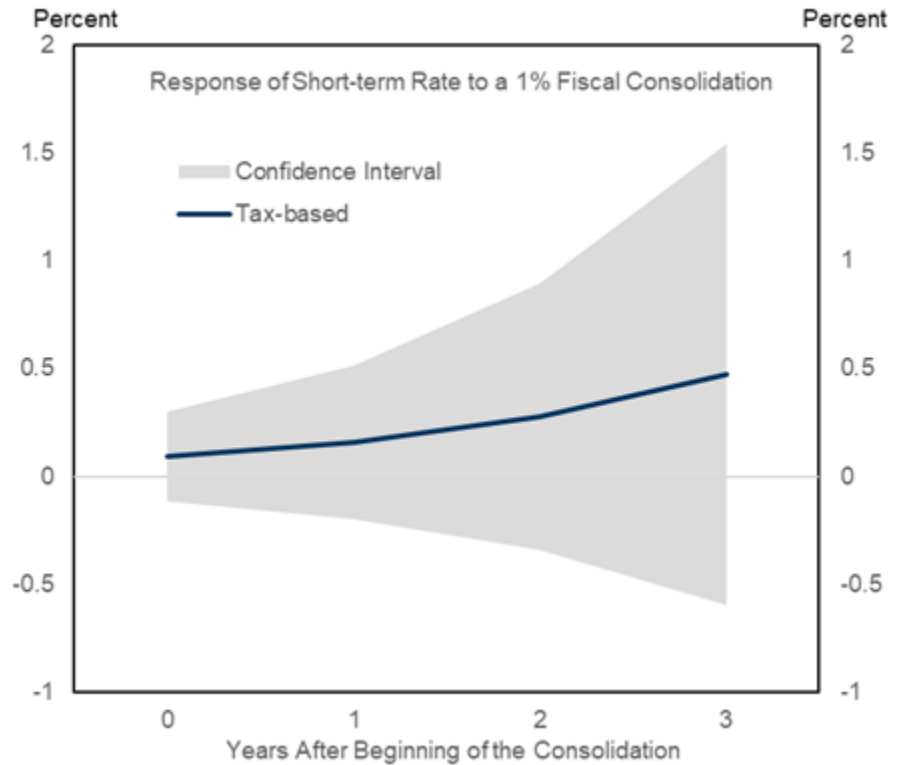
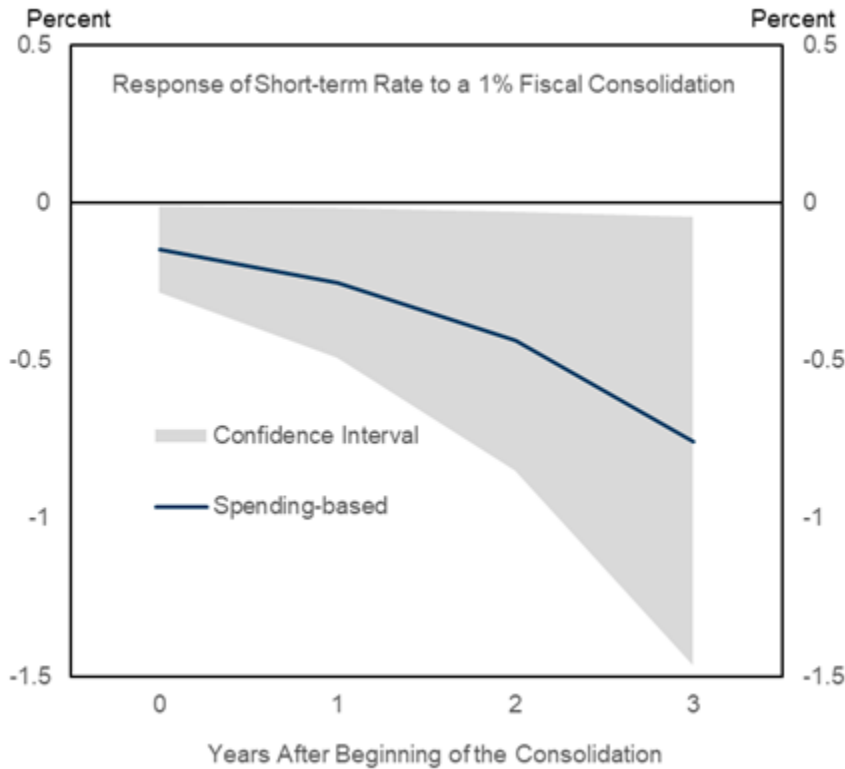
Successful Consolidations Focus on Spending Cuts



Consolidations Weigh on Growth



Monetary Policy Supports Spending Adjustments





Global Investment Research

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January 8, 2025

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